MUNICIPAL REFERENCE

OCT 31 1984

CITY OF TORONTO

J. RABINOWITZ, C.A.
CITY AUDITOR

336.7135
T5885

TORONTO HYDRO-ELECTRIC SYSTEM

Report on the audit
of the books and accounts
for the year ended December 31, 1983

CITY OF TORONTO

J. RABINOWITZ, C.A.
CITY AUDITOR

8th. FLOOR, WEST TOWER, CITY HALL
TORONTO, CANADA M5H 2N2

AUDIT DEPARTMENT
TELEPHONE:
947-7171

August 14, 1984

Mayor Arthur C. Eggleton,
and Members of the City of Toronto Executive Committee,
City Hall.

I have completed the audit of the accounts of the Toronto Hydro-Electric System for the year ended December 31, 1983 and present my report together with the following tables:-

Table 1 - Consolidated Balance Sheet as at December 31, 1983.

Table 1 (a) - Electric Utility Division Balance Sheet.

Table 1 (b) - District Steam Utility Division Balance Sheet.

Table 2 - Consolidated Statement of Revenue and Expenditure for the year ended December 31, 1983.

Table 2 (a) - Revenue and Expenditure - Electric Utility Division.

Table 2 (b) - " " " - District Steam Utility Division.

Table 3 - Consolidated Statement of Equity as at December 31, 1983.

Table 4 - Consolidated Statement of Changes in Financial Position for 1983.

- Notes to Financial Statements.

The statement presentation conforms with the requirements of The Power Corporation and Public Utilities Acts. Ontario Hydro has specified three requirements to be observed by the Toronto Hydro-Electric System. Briefly, these are:

1. Separate accounting arrangements are to be maintained for each utility.
2. The system of accounting for the steam utility will, as in the case of the electric utility, be subject to the direction of the (Ontario Hydro) Corporation.
3. The rates and charges to be made for the supply of steam will be subject to the control and approval of the (Ontario Hydro) Corporation.

Under the provisions of The Power Corporation Act where there is a surplus of revenue pertaining to an electric utility over the expenses thereof after providing for any payments of principal or interest on debentures and for such depreciation and other reserves as the Corporation deems proper, the surplus shall be applied and disposed of in such a manner as the Corporation directs.

The Corporation has approved of the application of the surplus for 1983 in terms of the aforesaid section towards the expenditure on capital assets.

COMMENTS ON THE CONSOLIDATED BALANCE SHEET - Table 1:

ACCOUNTS RECEIVABLE - $31,030,155:

Accounts receivable are stated at net value after deducting an allowance of $830,000 for doubtful accounts.

Credit balances amounting to $1,278,483 which pertain to the unexpended portion of deposits received on account of customers' work orders in progress, are classified as accounts payable for balance sheet purposes.

INVENTORIES - $9,704,288:

Inventories of operating materials and supplies are shown at their net value after deducting allowances of $55,104 for certain stock items. A reserve in the amount of $203,756, previously provided for stock obsolescence, etc., was credited to 1983 expenditures.

Standby transformers, previously capitalized as fixed assets, are now included in operating inventories. Compliance with this accounting policy change in 1983 resulted in a transfer of $2,354,000 from fixed assets to inventory accounts. The 1982 comparative figures have not been restated to reflect this change.

FIXED ASSETS - $169,321,753:

All capital assets are stated at original cost less accumulated depreciation. With the exception of street lighting, capital assets are depreciated by applying the straight-line method. In the case of street lighting, the sinking fund method of calculating depreciation is applied.

As stated above, standby transformers are now included in operating inventories in accordance with accounting policies set forth in the manual "Accounting for Municipal Electrical Utilities in Ontario." Prior years' (1980 - 1982) depreciation charges of $217,069, with respect to the reclassification of these assets, is reflected as a reduction of 1983 depreciation expense.

COMPARISON OF CAPITAL ASSETS (FIXED AND OTHER) WITH SOURCES OF FUNDS:

Fixed assets - Hydro-Electric System and District Steam Utility Division:

Land	$ 1,934,246	
Buildings, distribution system, water heaters and equipment	283,666,314	$285,600,560
Mortgage receivable		78,000
		$285,678,560

Source of Funds:		
Proceeds of the issue of debentures, net after write-off of franchises, transfer of assets to and from other systems, etc.	$ 44,586,694	
Contributions in aid of construction (net of amortization)	10,515,133	
Reserve for depreciation - funds invested in fixed assets	114,344,561	
Provisions for other liabilities (long term) re customers' advance deposits and reserves for employees' benefits	12,600,428	
Accumulated net income invested in fixed assets	103,631,744	$285,678,560

SINKING FUND EQUITY IN ONTARIO HYDRO
- and -
the corresponding RESERVE - $231,105,439

The Toronto Hydro-Electric System, through its purchases of electrical power, must provide for interest and principal payments on the debenture debt of Ontario Hydro.

The equity accumulated, through debt retirement charges, in the Corporation by the Toronto System as at December 31, 1983 was $231,105,439 as set out in a letter received from Ontario Hydro and relates to the electric undertaking.

OTHER LIABILITIES - $12,600,428:

This is the long term liability with respect to customers' advance deposits and of amounts reserved for employees' benefits as at December 31, 1983. Provisions for amounts payable in 1984 (included in current liabilities), together with other liabilities of subsequent years, are as set out below:

	Current Liabilities	Other Liabilities
Customers' advance deposits	$720,000	$ 4,205,352
Reserves for:		
Workers' compensation	152,400	1,450,404
Employees' sick pay credits	768,000	6,944,672
		$12,600,428

The basis for arriving at the workers' compensation reserve in 1983, as in 1982, has been to keep it at a level sufficient to cover the accrued liability for the pensions payable at the close of the year.

Provision has been made in the sick pay credits reserve to discharge the accrued liability, for both presently vested sick pay grants and for future vesting of such grants, as required by Ontario Hydro with respect to all System employees who have completed at least one year of continuous service at December 31, 1983 and who are not expected to retire in the coming year. All payments with respect to vested sick leave credits become due and payable to employees upon retirement, termination of employment in good standing or to their dependents, if any, in the case of death.

CONTRIBUTIONS IN AID OF CONSTRUCTION
- Deferred credit ($1,314,131) and Equity ($9,286,071):

Amounts contributed by Toronto, Metro, T.T.C. and others toward the cost of certain capital installations have amounted to $10,600,202. Such contributions in 1983 were $780,432 for street lighting equipment and $217,664 for other fixed assets.

Accounting policies prescribed by Ontario Hydro require that capital contributions from outside sources towards the cost of fixed assets, other than street lighting, be amortized over the life of the assets concerned. The un-amortized balance of such contributions is shown as a deferred credit on the balance sheet. The amortization credit reflected in income from 1983 operations amounted to $33,449.

ACCUMULATED NET INCOME
- Held for operating and future capital expansion - $31,571,867:

This is the amount of working capital available to the System at December 31, 1983 for its ongoing operations, of which, $12,600,428 represents provisions made for other (long term) liabilities.

The increase of $10,157,415 in 1983 reflects the net income of $7,121,466 from current year's operations, together with a prior year adjustment of $3,035,949 resulting from a change in 1983 concerning the manner in which capital assets are now considered to be financed, in part, by provisions for other (long term) liabilities. Comparative figures for 1982 have not been restated to reflect this change in the reporting of equity.

GENERAL LIABILITY INSURANCE:

The Power Corporation Act provides for either insurance or in lieu thereof, the establishment of a fund sufficient to protect the Toronto Electric Commissioners for loss or damage to person or property of employees and others occurring during the course of the operations of the System. Such insurance coverage is in force.

SUBSEQUENT EVENTS:

The operations of the District Steam Utility Division were taken over by the Toronto District Heating Corporation effective January 31, 1984, at which time all assets and liabilities of the Division, with the exception of the land and building which will be leased to the Corporation, were transferred to the newly formed Corporation in accordance with the terms of the sale agreement. The allocation of certain expenses between the Electric Division and the Steam Division is being discussed with T.D.H.C. and could result in some minor compensating changes in the statements of the two utilities.

DEBT REDEMPTION - $44,586,694:

This capital surplus is made up as follows:-

Debt retired,		
- including net credit of $162,008 for debt redemption pertaining to Forest Hill, Swansea and Leaside Systems		$50,382,058
From which has been deducted,		
- Par value equivalent of debentures retired out of proceeds of sale of fixed assets	$ 356,225	
- Discount and expenses in connection with fully retired debenture issues	1,572,920	
- Premium on debentures redeemed	31,655	
- Intangible assets, franchises, etc. written-off	3,834,564	5,795,364
		$44,586,694

COMMENTS ON THE CONSOLIDATED STATEMENT OF REVENUE AND EXPENDITURE - Table 2:

COST OF ELECTRIC CURRENT:

During 1983, Ontario Hydro provisionally charged the Toronto Electric Commissioners for electric power demand and for energy used. When the final costs for that period were ascertained, the Commissioners were charged a sum representing an increase in the provisional monthly charges. This supplementary charge was brought into account in the System's books at December 31, 1983.

SALE OF CURRENT AND STEAM:

I have made tests of the rates charged to the customers and have found them to be in agreement with the schedule of rates approved by Ontario Hydro.

INTEREST EARNED - $2,320,895:

Interest earned is detailed as follows:

Interest on bond investments	$ 1,380
Interest on term deposits	2,236,000
Mortgage interest	12,464
Bank account interest & other	44,718
Interest on employees' optional service	15,185
Interest on employees' Canada Savings Bonds purchases	11,148
	$2,320,895

AUDITOR'S REPORT

I have examined the consolidated balance sheet of the Toronto Hydro-Electric System and the balance sheets of its electric and district steam utility divisions as at December 31, 1983 and the consolidated electric and district steam utility divisions' statements of revenue and expenditure, and the consolidated statements of equity and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Toronto Hydro-Electric System as at December 31, 1983 and the results of its operations and the changes in its equity and financial position for the year then ended in accordance with the accounting principles set out in Note 1 to the financial statements applied on a basis consistent with that of the preceding year, except for the change in accounting policy as described in Note 2 to the financial statements.

J. Rabinowitz

J. Rabinowitz, C.A.,
City Auditor.

Table 1

TORONTO HYDRO-ELECTRIC SYSTEM

Consolidated Balance Sheet
as at December 31, 1983
(with Comparative Figures as at December 31, 1982)

A S S E T S

	1983	1982
Current assets:		
Cash	$ 1,081,066	$ 656,426
Term deposits	20,800,000	26,500,000
Accounts receivable, including orders in progress	31,030,155	27,234,641
Inventories of maintenance and construction materials (Note 2)	9,704,288	6,422,622
Prepaid expenses	66,960	69,236
	$ 62,682,469	$ 60,882,925
Fixed assets, at cost (Note 2):		
Buildings, distribution system and equipment	$283,666,314	$264,361,036
Less: Accumulated depreciation	114,344,561	105,491,909
	$169,321,753	$158,869,127
Land	1,934,246	1,935,746
	$171,255,999	$160,804,873
Other assets:		
Government of Canada bonds, at approximate market value	$ -	$ 44,712
Mortgage receivable	78,000	90,000
	$ 78,000	$ 134,712
	$234,016,468	$221,822,510
Equity in Ontario Hydro - contra	231,105,439	216,749,570
	$465,121,907	$438,572,080

Table 1

TORONTO HYDRO-ELECTRIC SYSTEM

Consolidated Balance Sheet
as at December 31, 1983
(with Comparative Figures as at December 31, 1982)

L I A B I L I T I E S

	1983	1982
Current liabilities:		
Accounts payable and accruals	$ 31,110,602	$ 26,599,984
Other liabilities:		
Customers' advance deposits	$ 4,205,352	$ 4,559,678
Accumulated sick pay credits	6,944,672	6,908,149
Provision for workers' compensation	1,450,404	1,535,374
	$ 12,600,428	$ 13,003,201
Deferred credit:		
Contributions in aid of construction	$ 1,314,131	$ 1,096,467
Less: Accumulated amortization	85,069	51,620
	$ 1,229,062	$ 1,044,847

E Q U I T Y

Accumulated from capital sources:		
Funded debt and capital advances retired	$ 44,586,694	$ 44,586,694
Contributions in aid of construction	9,286,071	8,505,639
	$ 53,872,765	$ 53,092,333
Accumulated net income (Note 3):		
Invested in capital assets	$103,631,744	$106,667,693
held for operating and future capital expansion	31,571,867	21,414,452
	$135,203,611	$128,082,145
	$234,016,468	$221,822,510
Equity in Ontario Hydro - contra	231,105,439	216,749,570
	$465,121,907	$438,572,080

Table 1 (a)

TORONTO HYDRO-ELECTRIC SYSTEM

Electric Utility Division

Balance Sheet
as at December 31, 1983
(with Comparative Figures as at December 31, 1982)

A S S E T S

	1983	1982
Current assets:		
Cash	$ 801,131	$ 620,655
Term deposits	20,800,000	26,500,000
Accounts receivable, including orders in progress	28,495,022	25,472,595
Toronto Hydro District Steam Division - current advances and accrued debt charges	2,077,816	1,139,648
Inventories of maintenance and construction materials	9,511,452	6,249,940
Prepaid expenses	63,047	65,432
	$ 61,748,468	$ 60,048,270
Fixed assets, at cost:		
Buildings, distribution system and equipment, water heaters, rolling stock, sundry assets	$272,883,948	$253,536,052
Less: Accumulated depreciation	111,224,124	102,629,252
	$161,659,824	$150,906,800
Land	1,506,571	1,508,071
	$163,166,395	$152,414,871
Capital advances:		
Toronto Hydro District Steam Utility Division	$ 9,000,000	$ 9,000,000
Less: Repayment instalments paid or accrued	3,214,413	2,933,634
	$ 5,785,587	$ 6,066,366
Other assets:		
Government of Canada bonds, at approximate market value	$ -	$ 44,712
Mortgage receivable	78,000	90,000
	$ 78,000	$ 134,712
Equity in Ontario Hydro - contra	$231,105,439	$216,749,570
	$461,883,889	$435,413,789

Note: For consolidation purposes, inter-divisional transactions are eliminated.

Table 1 (a)

TORONTO HYDRO-ELECTRIC SYSTEM

Electric Utility Division

Balance Sheet
as at December 31, 1983
(with Comparative Figures as at December 31, 1982)

LIABILITIES

	1983	1982
Current liabilities:		
Accounts payable and accruals	$ 30,386,144	$ 25,838,620
Interest-bearing loan from Toronto Hydro-District Steam Division	1,385,600	999,500
	$ 31,771,744	$ 26,838,120
Other liabilities:		
Customers' advance deposits	$ 4,205,352	$ 4,559,678
Accumulated sick pay credits	6,909,720	6,853,606
Provision for workers' compensation	1,221,031	1,314,469
	$ 12,336,103	$ 12,727,753
Deferred credit:		
Contributions in aid of construction	$ 1,314,131	$ 1,096,467
Less: Accumulated amortization	85,069	51,620
	$ 1,229,062	$ 1,044,847

EQUITY

Accumulated from capital sources:		
Funded debt retired	$ 44,586,694	$ 44,586,694
Contributions in aid of construction	9,286,071	8,505,639
	$ 53,872,765	$ 53,092,333
Accumulated net income:		
Invested in capital assets	$101,592,052	$104,344,057
Held for operating and future capital expansion	29,976,724	20,617,109
	$131,568,776	$124,961,166
Equity in Ontario Hydro - contra	$231,105,439	$216,749,570
	$461,883,889	$435,413,789

Table 1 (b)

TORONTO HYDRO-ELECTRIC SYSTEM

District Steam Utility Division

Balance Sheet
as at December 31, 1983
(with Comparative Figures as at December 31, 1982)

	1983	1982
A S S E T S		
Current assets:		
Cash	$ 279,935	$ 35,771
Accounts receivable	2,535,133	1,762,046
Inventory - maintenance, construction materials, etc.	192,836	172,682
Prepaid expenses	3,913	3,804
Interest-bearing loan to Toronto Hydro-Electric Utility Division	1,385,600	999,500
	$ 4,397,417	$ 2,973,803
Fixed assets, at cost:		
Buildings, distribution system and equipment	$10,782,366	$10,824,984
Less: Accumulated depreciation	3,120,437	2,862,657
	$ 7,661,929	$ 7,962,327
Land	427,675	427,675
	$ 8,089,604	$ 8,390,002
	$12,487,021	$11,363,805
L I A B I L I T I E S		
Current liabilities:		
Accounts payable and accruals	$ 724,458	$ 761,364
Toronto Hydro-Electric Utility Division		
Current advances	1,765,453	833,298
Debt repayment instalments accrued	188,582	177,950
Interest accrued	123,781	128,400
	$ 2,802,274	$ 1,901,012
Other liabilities:		
Provision for workers' compensation	$ 229,373	$ 220,905
Provision for accumulated sick pay credits	34,952	54,543
	$ 264,325	$ 275,448
Long term debt:		
Toronto Hydro-Electric Utility Division		
Capital advances	$ 9,000,000	$ 9,000,000
Less: Funded debt retired	3,025,831	2,755,684
	$ 5,974,169	$ 6,244,316
Less: Repayment instalments accrued	188,582	177,950
	$ 5,785,587	$ 6,066,366
Debt redemption:		
Capital surplus arising from redemption of capital debt including instalments accrued of $188,582	$ 3,214,413	$ 2,933,634
Operating surplus	$ 420,422	$ 187,345
	$12,487,021	$11,363,805

Note: For consolidation purposes, inter-divisional transactions are eliminated.

Table 2

TORONTO HYDRO-ELECTRIC SYSTEM

Consolidated Statement of Revenue and Expenditure for the year ended December 31, 1983 (with Comparative Figures for the year 1982)

	1983	1982
Revenue:		
Sale of current and steam	$317,455,291	$287,778,682
Other revenue from operations	7,281,763	6,615,572
Interest	2,320,895	2,633,502
	$327,057,949	$297,027,756
Expenditure:		
Cost of power and fuel	$266,089,905	$237,393,672
Operating expenses	41,131,818	40,625,531
Depreciation	9,980,417	9,494,723
Municipal taxes	2,734,343	2,532,265
	$319,936,483	$290,046,191
Income before extraordinary item	$ 7,121,466	$ 6,981,565
Extraordinary item:		
Return of extra payments made to the supplementary pension plan (Note 4)	-	16,500,000
Net income for the year	$ 7,121,466	$ 23,481,565
Reconciliation of Consolidated Net Income		
Net income - Electric Utility Division	$ 6,607,610	$ 23,672,030
Net income (loss) - District Steam Utility Division	233,077	(456,027)
Add back - Instalment charges incurred by the District Steam Utility Division relating to funded debt advances from Electric Utility Division	280,779	265,562
	$ 7,121,466	$ 23,481,565

Table 2 (a)

TORONTO HYDRO-ELECTRIC SYSTEM

Electric Utility Division

Statement of Revenue and Expenditure
for the year ended December 31, 1983
(with Comparative Figures for the year 1982)

	1983	1982
Revenue:		
Sale of Current		
Residential	$ 58,037,840	$ 51,281,466
Commercial-industrial	247,369,076	225,756,385
Street lighting - Toronto	2,122,557	2,046,123
Street lighting - Metropolitan Toronto	71,354	66,273
	$307,600,827	$279,150,247
Other revenue from operations	7,281,698	6,597,457
Interest	2,556,441	2,835,187
	$317,438,966	$288,582,891
Expenditure:		
Cost of electric current	$259,078,439	$230,814,538
Operating expenses	39,568,613	39,070,395
Depreciation	9,722,638	9,246,675
Municipal taxes	2,461,666	2,279,253
	$310,831,356	$281,410,861
Income before extraordinary item	$ 6,607,610	$ 7,172,030
Extraordinary Item:		
Return of extra payments made to the supplementary pension plan (Note 4)	-	16,500,000
Net income for the year	$ 6,607,610	$ 23,672,030

Note: For consolidation purposes, inter-divisional transactions are eliminated.

TORONTO HYDRO-ELECTRIC SYSTEM

District Steam Utility Division

Statement of Revenue and Expenditure
for the year ended December 31, 1983
(with Comparative Figures for the year 1982)

	1983	1982
Revenue:		
Sale of steam	$9,921,000	$8,693,582
Cost of fuel	7,011,466	6,579,134
Gross margin on the sale of steam	$2,909,534	$2,114,448
Interest on loan to Electric Utility Division and other	136,401	203,529
	$3,045,935	$2,317,977
Expenditure:		
Operations:		
Engineering Division		
Equipment maintenance and operating	$ 840,027	$ 874,276
Building maintenance and operating	37,116	43,751
Distribution piping maintenance	244,118	142,717
Metering maintenance	42,297	30,693
Administration and supervision	75,876	116,871
Water	220,312	218,414
Electricity	66,536	65,147
Automotive expense	7,308	5,130
Telephone	1,009	1,129
	$1,534,599	$1,498,128
Consumers' Service Division		
General salaries and expenses	$ 8,726	$ 31,061
Supply Division	$ 19,419	$ 19,309
Executive Department and Comptroller's Division		
General salaries and expenses	$ 31,342	$ 31,978
Legal Expenses	$ 24,199	$ 30,672
Fixed Charges		
Municipal taxes	$ 272,677	$ 253,012
Insurance	11,456	9,135
Long term debt instalments	280,779	265,562
Interest on long term debt	371,882	387,099
Depreciation	257,779	248,048
	$1,194,573	$1,162,856
Total expenses of operations	$2,812,858	$2,774,004
Net income (loss) for the year	$ 233,077	$ (456,027)

Note: For consolidation purposes, inter-divisional transactions are eliminated.

TORONTO HYDRO-ELECTRIC SYSTEM

Consolidated Statement of Equity as at December 31, 1983
(with Comparative Figures as at December 31, 1982)

ACCUMULATED FROM CAPITAL SOURCES

	1983	1982
Funded debt and capital advances retired	$ 44,586,694	$ 44,586,694
Contributions in aid of construction:		
Balance at beginning of year	$ 8,505,639	$ 7,240,833
Add: Contributions received during the year	780,432	1,264,806
Balance at end of year	$ 9,286,071	$ 8,505,639

ACCUMULATED NET INCOME

Invested in capital assets:		
Balance at beginning of year	$106,667,693	$ 90,983,031
Add (Less): Capital asset additions during the year allocated from "Held for operating and future capital expansion" (Note 3)	(3,035,949)	15,684,662
Balance at end of year	$103,631,744	$106,667,693
Held for operating and future capital expansion:		
Balance at beginning of year	$ 21,414,452	$ 13,617,549
Add: Net income for the year	7,121,466	23,481,565
	$ 28,535,918	$ 37,099,114
Add (Less): Allocated to "Invested in capital assets" for additions during the year (Note 3)	3,035,949	(15,684,662)
Balance at end of year	$ 31,571,867	$ 21,414,452

TORONTO HYDRO-ELECTRIC SYSTEM

1983 Consolidated Statement of Changes in Financial Position
(with Comparative Figures for the year 1982)

	1983	1982
Financial resources were provided by:		
Income before extraordinary item	$ 7,121,466	$ 6,981,565
Add: Items not requiring a current outlay of funds, principally depreciation and the increase in reserves for employee benefits	9,931,970	11,109,504
Total from operations	$17,053,436	$18,091,069
Government of Canada Bonds	44,712	-
Customers' advance deposits	(354,326)	622,780
Contributions in aid of construction	964,647	1,783,038
Return of extra payments made to the supplementary pension plan (Note 4)	-	16,500,000
	$17,708,469	$36,996,887
Financial resources were used for:		
Additions to fixed assets	20,419,543	26,950,423
Increase (decrease) in working capital	$(2,711,074)	$10,046,464
Working capital at beginning of year	34,282,941	24,236,477
Working capital at end of year	$31,571,867	$34,282,941
Analysis of changes in working capital:		
Increase (decrease) in current assets -		
Cash	$ 424,640	$ (89,932)
Term deposits	(5,700,000)	4,600,000
Accounts receivable	3,795,514	3,975,646
Inventories	3,281,666	1,512,152
Prepaid expenses	(2,276)	(165)
	$ 1,799,544	$ 9,997,701
Decrease (increase) in current liabilities -		
Accounts payable and accruals	(4,510,618)	48,763
Increase (decrease) in working capital	$(2,711,074)	$10,046,464

TORONTO HYDRO-ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1983

1. Summary of significant accounting policies:

The financial statements have been prepared in accordance with accounting principles for municipal electrical utilities in Ontario as required by Ontario Hydro under the authority of section 96 Of The Power Corporation Act and reflect the following policies as set forth in the manual "Accounting for Municipal Electrical Utilities in Ontario".

Fixed assets and depreciation -

Fixed assets are stated at cost and are removed from the accounts at the end of their estimated average service lives, except in those instances where specific identification allows their removal at retirement or disposition. Gains or losses at retirement or disposition are credited or charged to income.

Depreciation is provided by the straight-line method for all fixed assets except street lights and the assets of the District Steam Division, which are depreciated by the sinking fund method. Both classes of assets are depreciated over periods approximating their estimated service lives.

Revenue recognition -

The System records as revenue only amounts billed during the year. No adjustment is made for the period between the last billing date and the end of the fiscal year. As a result of this policy, there is unaccrued revenue amounting to approximately $17,046,000 as at December 31, 1983 ($13,959,000 in 1982). Net income for 1983 would have been approximately $3,087,000 greater ($820,000 greater for 1982) had such amounts been recorded.

Inventories -

Inventories consist principally of maintenance and construction materials and are stated at weighted average costs.

Employee benefits -

The System provides in its financial statements the estimated present value of future compensation payments to be paid through the Workers' Compensation Board.

The System pays accumulated sick-leave credits, up to certain established limits based on service, in the event of retirement, termination or death of employees. Provision is made for amounts which would be sufficient to meet such obligations for employees.

Annual adjustments to the provisions, in respect of the above plans, are charged to current operating costs.

Contributions in aid of construction -

Contributions in aid of construction consist of finances received from outside sources used for additions to plant capital. All contributions received prior to January 1, 1980, and contributions received on or after January 1, 1980 for street lighting equipment, are considered a permanent part of equity and are not amortized. Contributions received on or after January 1, 1980 for fixed assets other than street lighting equipment are recorded as deferred credits and are amortized to income at an equivalent rate to that used for the depreciation of the related assets.

2. Change in accounting policy:

Effective January 1, 1983, standby transformers, which were formally charged to fixed assets at the time of purchase, have been included in inventory in accordance with accounting policies set forth in the manual "Accounting for Municipal Electrical Utilities in Ontario" in the amount of $2,354,000. The effect of this change in accounting policy on net income is not significant.

3. Accumulated net income:

Provision has been made in current liabilities as of January 1, 1983 for refunds of advance deposits to customers and compensation payments to employees through the Workers' Compensation Board which are expected to be paid in the following year. Since other liabilities are therefore now considered as a source of capital funds, an internal transfer within the equity account of $3,035,949 has been made in 1983 from accumulated net income invested in capital assets to accumulated net income held for operating and future capital expansion.

4. Pension plan:

The System provides a basic pension plan for its employees through the Ontario Municipal Employees Retirement System (OMERS). Vesting in the plan is immediate. Contributions made by the System during the year to the plan were made on the basis of the most recent actuarial valuation, which was completed as at December 31, 1982.

Effective January 1, 1983, the OMERS basic plan began providing its members with early retirement benefits which were previously provided to the System's employees under the terms of the OMERS supplementary pension plan. As a result of this transfer of pension obligations from the OMERS supplementary plan to the OMERS basic plan, the extra payments in the amount of $16,500,000 made in advance to the fund by the Toronto Electric Commissioners towards the actuarially calculated unfunded liability were returned by OMERS to the Commissioners on December 31, 1982. This amount has been recorded in the 1982 financial statements as an extraordinary item.

The remaining supplementary pension plan related to employee service prior to January 1, 1966, the date the System joined OMERS. This plan was revalued as at December 31, 1982 and combined with the OMERS basic plan as of January 1, 1983. On completion of the revaluation, a final payment of $282,153, which was required to complete the funding of the past service liability, was paid into the basic plan.

Pension costs charged to operations in 1983 amounted to $2,411,213 (1982 - $4,330,277) and consisted of funding payments made in the year in respect of unfunded past service liability in the amount of $282,153 (1982 - $1,631,091) and current service costs in the amount of $2,129,060 (1982 - $2,699,186).

5. Sale of the District Steam Division:

The transfer of all of the assets and liabilities of the District Steam Division to the Toronto District Heating Corporation, with the exception of the land and building which are being leased to the Corporation, took place on January 31, 1984. Included in the 1983 accounts is the Division's distribution system and equipment net of accumulated depreciation of $6,531,000 (1982 - $6,803,000) and $9,921,000 of revenue from the sale of steam (1982 - $8,694,000) having fuel costs of $7,011,000 (1982 - $6,579,000) and contributing net income of $233,000 (1982 - net loss of $455,000).